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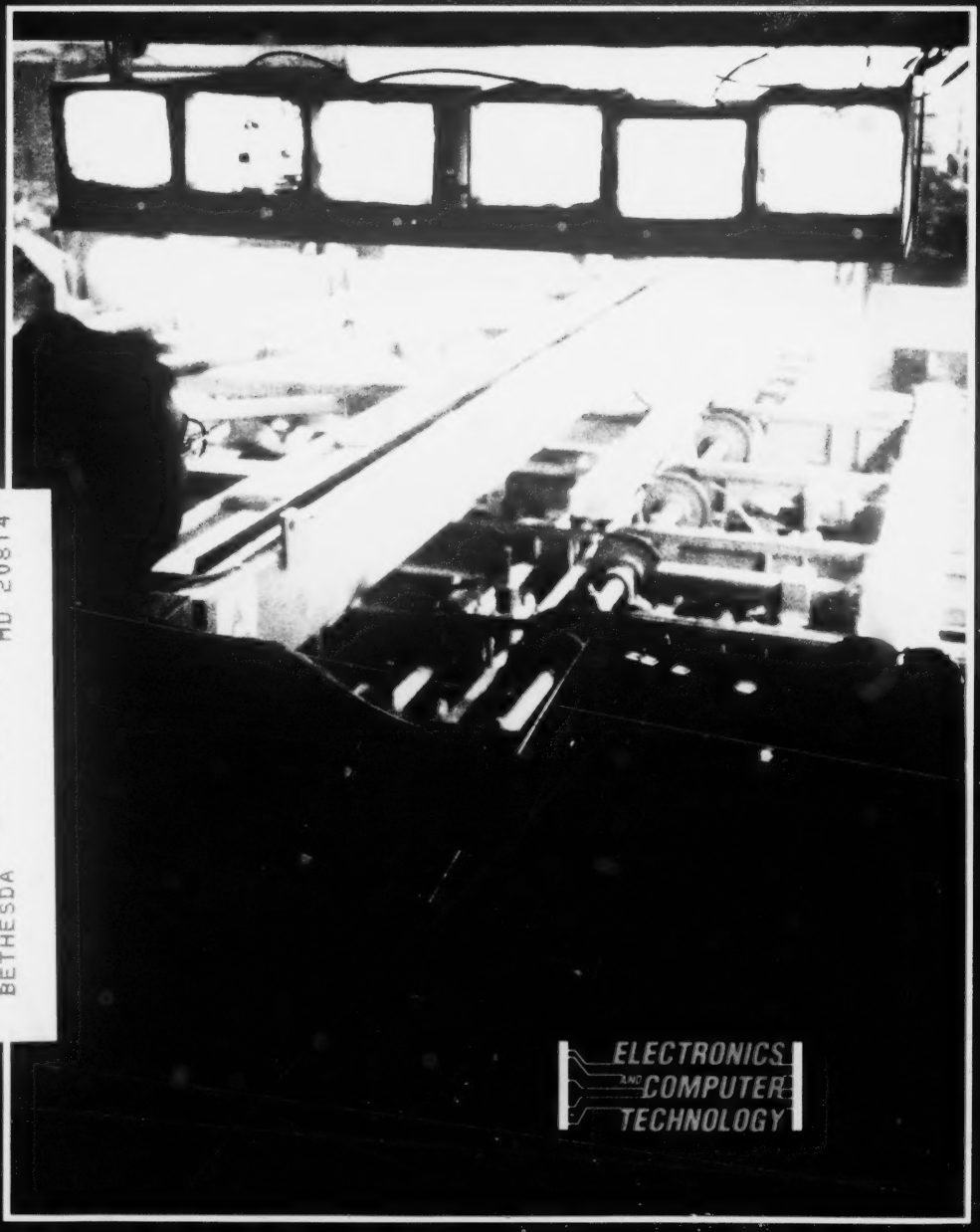

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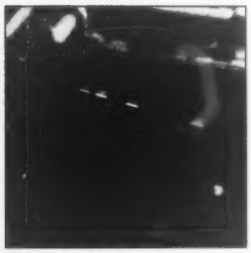

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Log exports, in decline, can't offset land withdrawals

It will take more than prohibition of log exports to offset timber lost through preservation victories

BY BOB FLYNN

The United States has long been the world leader in exporting unprocessed softwood logs. Export volumes for logs reached a peak in 1988, but have been falling because of declining demand in some key markets.

This downward trend will continue due to a combination of factors: new U.S. legislation, changing patterns of log supply and changing market conditions.

Log exports from the U.S. in 1991-92 will drop 10% to 15% from 1990 levels due to new export restrictions and reduced log availability in Alaska. After that, log exports will slowly decline due to decreased supply from some U.S. sources, increased availability of other softwoods such as radiata pine from New Zealand, and greater demand in the market countries for processed wood.

While this decline may be good news for lumber producers in the Pacific Northwest, the volumes involved will come nowhere close to offsetting decreases in timber supply due to the spotted owl and other preservationst victories.

Lower volumes shipped

Almost 85% of all U.S. softwood log exports are shipped from Washington, Oregon and California. Alaska is the source of another 11% or 12%. The remaining small volumes are mostly from the Northeast, into Canada, and from the South.

In 1988, the West Coast exported 3.8 billion bd ft (Scribner) of softwood logs. This was the highest volume ever shipped, about 25% higher than in 1979. The volume from Pacific ports dropped about 10% in 1989 and another 10% in 1990, to approximately 3 billion bd ft.

(In January 1989, the Commerce Department began reporting export volumes in cubic meters. Resulting data contain more errors than normal due to confusion surrounding the change to metric measurement. Export statistics cited here for 1989 and 1990 are from private sources.)

Decreased log exports were not the result of any U.S. restrictions, but were purely market driven. Log shipments to China in 1989 and 1990 were less than half the volume shipped in 1988. For the first half of 1991, log exports from West Coast ports to Japan were down over 23% from 1990. Reduced demand will mask the effects of new log export restrictions, at least initially.

New U.S. legislation

Timber harvests from federal lands in the U.S. Pacific Northwest were going to decrease anyway, but the listing of the northern spotted owl as an endangered species has greatly accelerated this decline.

Timber harvests on federal lands in Washington, Oregon and California will decrease substantially. In September, Congress was considering options which balance economic considerations against preservation of old-growth stands, protection of spotted owls and marbeled murrelets, and consideration of habitat for sensitive fish species.

If the U.S. Fish and Wildlife Ser-

vice decides to implement its current critical habitat proposal, federal timber harvests in the owl region could fall by more than 75%. Estimates of the impact on timber harvesting range from a decrease of about 2 billion bd ft to almost 8 billion bd ft, depending on whether the owl conservation strategy is also applied to private lands.

Exporting unprocessed logs from public timberlands has long been the subject of a rancorous debate between sawmill owners and log exporters in the Pacific Northwest. Last year, Congress seized on the idea of restricting log exports to alleviate the timber shortage and resulting economic hardships caused by preservation efforts. In September, Congress passed the Federal Forest Resources Conservation and Shortage Relief Act of 1990. This act directly impacts log exports from federal and state forests and indirectly affects log exports from private lands.

Effects on federal timber

Before the act was passed, log exports from federal timberlands were prohibited by a rider to the annual Interior Department appropriations bill. The ban has been made permanent on all but a few minor "surplus" species such as Port Orford cedar.

In addition, the act tightens restrictions on the substitution of logs from federal lands for logs exported from private lands. Generally, firms which export logs from private lands cannot buy federal timber directly or indirectly, with a few exceptions. In some cases, firms may purchase federal timber within an approved "sourcing area" for their mills, even though they continue to export logs from private lands outside that sourcing area. Native American forestlands are exempt from this legislation.

Effects on state timber

The impacts of the new legislation vary by state. Alaska is not included in the act, so the main impact of this provision falls on Washington and Oregon.

Roughly 80 million to 100 million bd ft of logs from state-owned lands in Oregon have been exported annually for several years. The new act prohibits all log exports from state-owned lands and no substitution is allowed. If a firm exports timber from private lands anywhere in Oregon, it is no longer eligible to purchase any timber sales from the state.

In Washington, the state Department of Natural Resources sold more than 800 million bd ft annually during the 1980s, approximately 60% of which was exported. The new federal legislation requires that at least 75% of the annual sales volume be restricted to domestic processors.

Because not all logs on any given timber sale are of export quality, the actual reduction in export of logs from state and county-owned lands will be closer to 85%. Direct substitution is not allowed, but there is one exception: firms which export timber from western Washington may purchase DNR timber sales in the area east of the Columbia River for processing there. This exception affects mainly Plum Creek's mill in Spokane.

In Washington, indirect substitution is allowed on up to 33% of the restricted sales in 1991. (Up to one-third of the volume of restricted sales can be purchased by a qualified buyer and resold for domestic processing to someone who was not eligible to buy the sale in the first place.) This percentage declines to 20% in 1992 and 10% thereafter.

Effect on private timber

While the act will decrease the volume of public timber going into export markets, its effect on private lands is less clear. For example, in order to continue buying federal timber in Oregon, Weyerhaeuser has announced it will cease exporting timber from its own lands in that state.

This will not have much impact on the total available log supply, because about 90% of Weyerhaeuser's log exports come from its Washington tree farms. Logs that Weyerhaeuser might have exported from Oregon won't necessarily go to domestic mills; they might remain on the stump.

Finally, while some firms may choose to stop exporting in order to qualify to buy public timber, other companies and tree farm owners may increase their log exports, particularly if prices are forced higher by export restrictions.

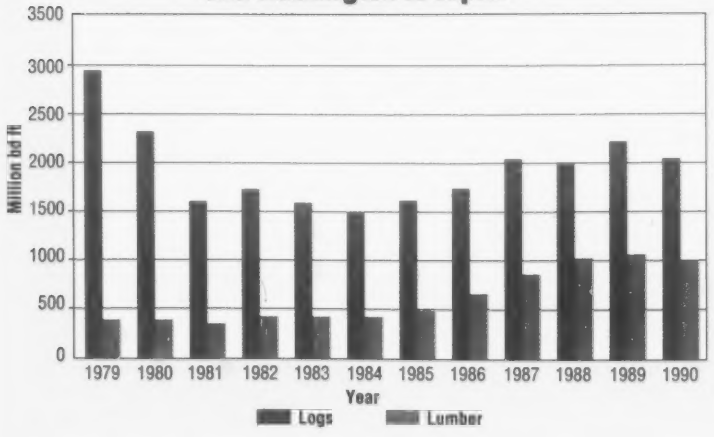
Net effects of export restrictions

The act's effects will be felt gradually over the next several years. While restrictions on state-owned timber in Washington went into effect Jan. 1, 1991, 900 million bd ft of timber sold earlier can be exported. These logs will enter the market over the next one to two years.

What will be the total impact of this new act? Possibly none at all. The Washington Board of Forestry has filed suit against the federal government claiming that restricting the sale of DNR timber violates the state constitution.

By state law, the department must manage state lands to produce maximum possible revenue for its trustees,

FIG. 1—Softwood log and lumber exports from Oregon and Washington to Japan



primarily state schools and universities. By not selling to log exporters, the department expects to lose between $60 and $100 million per year.

Even if the law is upheld, and even if there is an increase in volume from private lands, the new restrictions will prevent the export of no more than about 400 to 500 million bd ft of logs from public lands.

Changing supply patterns

Regardless of the effects of last year's legislation, log exports from the Pacific Northwest will decline because of changing supply patterns. For example, the supply of exportable timber from native corporations in southeast Alaska is no longer sufficient to support previous levels.

Log exports from Alaska in fiscal 1989 were almost 630 million bd ft, but dropped to 500 million bd ft in fiscal 1991. In addition, a greater proportion of logs will be coming from south-central Alaska instead of southeast Alaska, so the quality will be lower than in the past.

Canadian log exports originate primarily from British Columbia. Volumes have never been more than about 20% of U.S. log exports. Log exports from British Columbia dropped from 2.8 million m^3 in 1988 to an estimated 800,000 m^3 in 1990 due to governmental restrictions.

The total timber harvest in British Columbia is also expected to decline, making any rebound in log exports politically impossible.

As the availability of North American logs for export declines, our primary customers are looking elsewhere. The harvest of radiata pine in New Zealand and Chile is expected to more than double during the 1990s. New Zealand's sale of half its state-owned forest plantations will accelerate the volume of log exports from that country.

In 1987, radiata pine accounted for only 3.5% of Japanese softwood log imports. In 1990, radiata's share (mostly from New Zealand) increased to an estimated 10.5%. South Korea's imports of radiata pine lately have exceeded Japan's. China has also increased imports of New Zealand logs.

The Soviet Union's log exports to Japan have declined in recent years, but in 1989 the USSR was the largest exporter of logs to China. South Korea has improved diplomatic relations with the USSR, and now Hyundai has also begun importing Russian logs. As North American logs become scarcer, more and more Japanese firms are arranging joint ventures in Siberia and the Soviet Far East to take advantage of the huge softwood resource there.

TABLE 1—Log, lumber exports from Oregon and Washington to Japan (million bd ft*)

Year	Logs	Lumber
1979	2960	356
1980	2344	362
1981	1604	312
1982	1738	414
1983	1591	448
1984	1519	414
1985	1617	472
1986	1769	672
1987	2049	851
1988	2021	1031
1989	2220	1090
1990	2058	990

** Scribner scale.*

Changing market conditions

Demand for wood imports in Japan began a slow shift from logs to lumber during the 1980s. Japan is by far the largest market for U.S. log exports, taking 65% of all U.S. softwood log exports in 1989 and close to 70% in 1990. Softwood log exports to Japan from Oregon and Washington dropped in volume by 30% between 1979 and 1990, while lumber exports to Japan increased about 180% (Table 1, Fig. 1).

The U.S. government and the National Forest Products Assn. have long been pressuring Japan to correct "unfair trading practices" and to open Japanese markets more to U.S. wood products. More U.S. and Canadian mills have begun producing sizes and specifications desired by Japanese customers. Trade promotion organizations such as the Evergreen Partnership in Washington have done an excellent job in fostering contacts between U.S. suppliers and Japanese customers.

Perhaps an even more important trend in the long run is the acute shortage of labor affecting all industry in Japan. The shortage is particularly troublesome in an industry that, according to Jerry Haver of Plum Creek Timber, is characterized in Japan by the "three Ks—Kitanai, Kiken, Kitsui (dirty, dangerous, difficult)."

There are not enough workers, maintains Haver, to process the logs Japan needs to supply its sawnwood demand. A shortage of skilled carpenters has caused a shift away from traditional post-and-beam construction toward modular homes and even 2x4 western-style housing.

While log imports from all sources will continue to be important for Japan, an increasingly larger share of imports will be composed of lumber instead of logs.

Ban on private logs next?

U.S. Rep. Peter DeFazio (D-Ore.) introduced a bill in 1990 that sought to prohibit the export of all logs, including those from private lands, from the United States. The bill died last year, but a similar measure was expected to be re-introduced this fall.

Its chances of passing are slim. Most economic studies show a net economic loss, due to jobs lost in logging and log exporting, loss of government timber revenues due to lower stumpage prices, etc.

Most important, a ban on log exports would mean lower stumpage prices for corporate and individual timberland owners of all sizes throughout the West. Because it would represent a blatant transfer of income from tree farmers to sawmill owners and workers, such an approach will probably not receive much popular support.

Finally, because such a ban would be a gross "taking" of private property rights, and would have repercussions far beyond the forest products industry, it may be too politically sensitive for Congress to act on. ■

THE AUTHOR is an economist with Jay Gruenfeld Associates, a Seattle, Wash., forest resource and management consulting firm.

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